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Office of the Legislative Auditor

State of Montana

Report to the Legislature

November 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1994

Montana Health Facility Authority

Department of Commerce

We issued an unqualified opinion on the financial statements of the Authority and our report contains no recommendations.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1994

Montana Health Facility Authority

Department of Commerce

Members of the audit staff involved in this audit were Brenda Bokovoy and John B. Fine.

STATE OF MONTANA

Office of the Legislative Auditor

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LEGAL COUNSEL:
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DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

November 1994

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the two fiscal years ended June 30, 1994. We would like to thank the executive director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Appointed and Administrative Officials

Board Members

Dr. Amos R. Little, Jr., Chairman
Physician
Helena

Joyce Asay
Hospital Administrator
Forsyth

Sidney K. Brubaker
Banker
Terry

Gayle Carpenter
Montana Hospital Association
Helena

Dalyce K. Flynn
Development Consultant
Townsend

Gregory L. Hanson
Attorney
Missoula

Michael P. Varone
Banker
Helena

Administrative Staff

Jerry R. Hoover, Executive Director

Michelle Barstad, Bond Program Officer

Sandra Boggs, Bond Program Assistant

Introduction

We performed a financial-compliance audit of the Montana Health Facility Authority (the Authority) for the two fiscal years ended June 30, 1994. We performed the audit in accordance with generally accepted auditing standards.

The objectives of our audit were to:

1. Determine if the Authority complied with applicable state laws and regulations.
2. Determine if the financial statements of the Authority present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 1994.
3. Make recommendations for the improvement of management and internal controls of the Authority.

Background

The Montana Health Facility Authority was created by the 1983 Legislature. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The Authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the Authority's operation is performed by the department's Management Services Division.

The Authority administers four programs: the Pooled Loan Program, the Single Project Financing Program, the Private Placement Program, and the Direct Loan Program. The programs are discussed in more detail in the following sections. With the exception of bonds issued on behalf of state entities, the revenue bonds issued under the programs of the Authority do not constitute a debt or liability to the state of Montana or any political subdivision thereof. Therefore, the bonds are not reflected in the financial statements of the Authority. Bonds issued on behalf of state entities, such as the Montana Developmental Center, appear on the financial records of the entity rather than the Authority. Additional information on amounts

and maturity dates of the revenue bonds is disclosed in note 2 to the financial statements on pages A-8 through A-10.

Pooled Loan Program

The Pooled Loan Program provides low interest loans for eligible health institutions, as defined in section 90-7-104, MCA, to finance or refinance land, buildings, equipment, and improvement costs. Under this program the Authority issues revenue bonds, the proceeds of which are loaned to health institutions. The interest rates of the loans include bond interest costs. The Authority presently administers six different Pooled Loan Programs: the 1985 Pooled Loan Program, three Community Provider Pooled Loan Programs, the 1992 Hospital Pooled Loan Program and the 1994 Master Loan Program.

During fiscal years 1992-93 and 1993-94, a portion of the proceeds from the 1985 Pooled Loan Program were available for loans to health institutions. The 1985 bond issue has a provision allowing the Authority to loan principal repayments received from outstanding loan agreements to health facilities for additional capital improvements. All loans issued by the Authority are structured so that repayments can be used to redeem all outstanding bonds in the year 2015.

In July 1992, the Authority issued revenue bonds under its Hospital Pooled Loan Program (Series 1992) in the amount of $4,645,000 for two hospitals. The program was designed to meet the capital financing needs of intermediate size hospitals. In order to give the hospitals a better bond rating, the Authority entered into an agreement with the Board of Investments (the Board), whereby the Board agrees to lend the Authority funds to ensure timely payment of the bonds in the event the borrowers cannot meet scheduled payments.

The Authority did not make any community provider loans during our audit period. However, they did organize a new Pooled Loan Program called the Master Loan Program. Additional information regarding the Master Loan Program is disclosed in note 5 to the financial statements on page A-12.

Single Project Financing Program

The Single Project Financing Program authorizes tax-exempt financing on a project-by-project basis. Bonds or notes are issued for individual projects. Interest and other associated costs are paid by the participating institutions.

In June 1993, $14,900,000 of bonds were issued for the Bozeman Deaconess Foundation. The net proceeds were used to advance refund the $14,635,000 principal amount of outstanding Hospital Facilities Refunding Revenue Bonds that were initially issued by the Authority in 1987.

In September 1993, $18,275,000 of bonds were issued for Holy Rosary Hospital in Miles City. Bond proceeds, together with moneys of Holy Rosary, were used to construct and equip a replacement facility for the hospital and nursing home.

In January 1994, $50,915,000 of bonds were issued for the Sisters of Charity of Leavenworth Health Services Corporation to help renovate and purchase equipment for hospitals in Billings and Butte. The proceeds of the bonds were also used to refund approximately $20 million of outstanding bonds associated with the hospitals.

In January 1994, $58,870,000 of bonds were issued for the Deaconess-Billings Clinic to finance acquisition, construction, and equipment costs associated with the hospital and clinic. The net proceeds will also be used to help fund future capital expenditures of both facilities.

A portion of the net proceeds for all the above bond issues was used to pay costs associated with issuing the bonds, as well as establish required debt reserves.

Private Placement Program

A private placement is the direct sale of a bond or note to a limited number of investors. In a private placement, the issuer, whether the Authority or city or county government, issues a bond or note on behalf of the health facility. The bond or note is privately placed with an investor who signs a letter stating the bond/note will not be immediately resold to the general public.

A private placement generally reduces underwriting and bond issuance expenses by minimizing the costs and time involved in marketing the debt. It is usually a less costly method of financing projects under $2 million. The Authority's role in this type of financing is to provide technical support to the client.

The Authority organized one private placement during our audit period. In January 1993, the Authority issued bonds for Richland Opportunities, Inc. The proceeds of the bonds were used to construct a six-person group home for persons with developmental disabilities. The proceeds were also used to purchase and install equipment for the new group home.

The Authority provided technical support for another private placement in August 1992. However, these bonds were issued by the county in which the health facility is located.

Direct Loan Program

During our audit period, the Authority established a new program called the Direct Loan Program, whereby the Authority makes loans to eligible health facilities from its own fund balance. The purpose of the program is to provide financing for health care providers with less than an investment grade rating. Eligible projects include construction, renovation, facility acquisition, refinancing of qualified outstanding debt, and the purchase of equipment. The maximum amount loaned is $50,000 for a maximum five year term. Loans are on a first come, first serve basis.

During March 1994, the Authority made two loans under its new program. The Authority loaned $50,000 to Residential Support Services, a non-profit organization, for the construction of an eight-person group home for persons with developmental disabilities. The other loan, in the amount of $38,500, went to Mineral Community Hospital to help purchase hospital equipment. Since the loans were made from the Authority's fund balance, the Authority has established a note receivable for the outstanding loan amounts.

Independent Auditor's Report & Agency Financial Statements

STATE OF MONTANA

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Financial-Compliance Audit
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Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheets of the Montana Health Facility Authority (the Authority) - Enterprise Fund of the state of Montana as of June 30, 1994 and 1993, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Statements of Cash Flows for each of the two fiscal years then ended. The financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Health Facility Authority as of June 30, 1994 and 1993, and the results of operations and cash flows for the two years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 4, 1994

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
BALANCE SHEETS - ENTERPRISE FUND
JUNE 30, 1994 AND 1993

	1994	1993
ASSETS:		
Cash	$ 30,640	$ 21,211
Interest Receivable	922	6,060
Accounts Receivable	4,546	0
Short Term Notes Receivable (Note 6)	9,876	0
Long Term Notes Receivable (Note 6)	81,532	6,704
Due From Other Funds	1,812	970
Short Term Investment Pool (Note 3)	520,700	358,700
U.S. Treasury Notes (net of premium & discount)	199,697	301,554
Prepaid Expenses	1,777	4,194
Fixed Assets (net of accumulated depreciation)	4,797	6,223
Total Assets	$856,299	$705,616
LIABILITIES AND RETAINED EARNINGS:		
Liabilities:		
Deferred Revenue	$ 746	$ 0
Accounts Payable	11,378	9,863
Compensated Absences	17,225	14,870
Total Liabilities	29,349	24,733
Retained Earnings:	826,950	680,883
Total Liabilities & Retained Earnings	$856,299	$705,616

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1994 AND 1993

	1994	1993
REVENUES:		
Services Fees	$256,978	$198,205
Investment Earnings	29,965	27,467
Total Revenues	$286,943	$225,672
EXPENSES:		
Personal Services	$ 54,624	$ 51,486
Contracted Services	57,797	52,947
Supplies and Materials	377	1,513
Communications	2,747	2,800
Travel	10,400	9,519
Rent	66	1,983
Repairs and Maintenance	67	80
Other Expenses	13,373	11,684
Depreciation - Equipment	1,377	1,080
Loss on Sale of Fixed Assets	48	805
Total Expenses	$140,876	$133,897
Excess of Revenues Over Expenses	146,067	91,775
Retained Earnings Beginning of Period	680,883	589,108
Total Retained Earnings	$826,950	$680,883

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1994 AND 1993

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenues Over Expenses	$ 146,067	$ 91,775
Income to Net Cash Provided by (Used for) Operating Activities:		
Depreciation	1,377	1,080
Loss on Sale of Equipment	48	805
Interest on Investments	(29,965)	(27,424)
Change in Assets & Liabilities:		
Increase (Decrease) in Compensated Expenses Payable	2,355	(10)
Increase in Accounts Payable	1,515	5,247
Decrease (Increase) in Accounts Receivable	(4,546)	20,422
Decrease (Increase) in Prepaid Expense	2,417	(3,912)
Decrease (Increase) in Long Term Notes Receivable	(74,828)	1,140
(Increase) in Short Term Notes Receivable	(9,876)	0
Decrease in Due From Other Funds	0	1,018
Total Adjustments	$(111,503)	$ (1,634)
Net Cash Provided by (Used for) Operating Activities	34,564	90,141
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Acquisition of Fixed Asset	0	(4,026)
Net Cash Used for Capital & Related Financing Activities	0	(4,026)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale (Purchase) of Investment	100,000	(100,000)
Interest on Investments	36,865	24,872
Net Cash Provided by (Used for) Investing Activities	136,865	(75,128)
Net Increase (Decrease) in Cash and Cash Equivalents	171,429	10,987
Cash & Cash Equivalents, July 1	379,911	368,924
Cash & Cash Equivalents, June 30	$551,340	$379,911

The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Authority's Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in SBAS recorded for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Statements of Cash Flows represents the Authority's cash and Short-Term Investment Pool balances as presented on the Balance Sheets.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect the liability.

2. Revenue Bonds and Notes Outstanding

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans from bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the health facilities. The other loan payments are secured by standby letters of credit from banks rated "A" or better.

These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof, and therefore, are not reflected in the financial statements of the Authority.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Bonds Outstanding at June 30, 1994	Bonds Outstanding at June 30, 1993
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985 A	1985-2015	Variable	$38,800,000	$38,800,000
Health Care Revenue Bond (Community Provider Pooled Loan Program) Series 1988	1988-2003	Fixed	1,125,000	1,195,000
Hospital Facilities Refunding Revenue Bonds (St. Peter's Community Hospital in Helena) Series 1989	1989-2010	Fixed	8,190,000	8,455,000
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1990	1990-2010	Fixed	13,350,000	13,750,000
Health Care Revenue Bond (Community Provider Pooled Loan Program) Series 1990	1990-2010	Fixed	5,336,000	5,522,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	36,000,000	36,000,000
Hospital Facilities Revenue Bonds (Sisters of Providence - St. Patrick Hospital in Missoula, Columbus Hospital in Great Falls, and St. Joseph Hospital in Polson) Series 1991	1991-2012	Fixed	52,635,000	54,635,000
Hospital Facilities Revenue Bonds (Great Falls Deaconess Medical Center) Series 1991	1991-2011	Fixed	11,365,000	11,695,000
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital in Helena) Series 1991	1991-2011	Fixed	6,415,000	6,620,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	31,050,000	31,850,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 D	1991-2000	Fixed	5,700,000	6,275,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1991 A&B	1991-2011	Fixed	3,692,000	3,822,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	4,305,000	4,645,000

Issue	Period Outstanding	Type of Interest Rate	Bonds Outstanding at June 30, 1994	Bonds Outstanding at June 30, 1993
Health Care Revenue Bonds (Richland Opportunities, Inc., Project) Series 1993	1993-2013	Fixed	193,160	198,058
Hospital Facilities Revenue Refunding Bonds (Bozeman Deaconess Foundation Project) Series 1993	1993-2008	Fixed	14,190,000	14,900,000
Hospital Facility Revenue Bonds (Holy Rosary Hospital) Series 1993	1993-2020	Fixed	18,275,000	0
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corporation) Series 1994	1994-2023	Fixed	50,915,000	0
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Fixed and Variable	58,870,000	0
Revenue Bonds Outstanding			$360,406,160	$238,362,058

Stated maturities on Revenue Bonds Payable are as follows:

Maturing In Year Ended June 30	Bond Principal Payments
1995	$ 8,339,253
1996	8,930,632
1997	9,363,039
1998	10,196,476
1999	10,381,944
2000-2025	313,194,816
Total	$360,406,160

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the indenture and investment earnings thereon.

Revenue Notes Payable:

Issue	Due	Interest Rate	June 30, 1994	June 30, 1993
West Mont Home Health Services, Inc., Series 1985 Hospital Revenue Note	1987-2004	2% under Bank Floating Rate	$255,994	$289,320
Total			$255,994	$289,320

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

3. Investments

Investments are units purchased in the state of Montana's Short-Term Investment Pool (STIP) and U.S. Treasury Notes. STIP investments are reflected at cost which equals market. At June 30, 1993 and 1994, the Authority owned 3,587 units and 5,207 units valued at $100 per unit for a total of $358,700 and $520,700, respectively. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities and Repurchase Agreements. At June 30, 1993, the Authority owned three $100,000 par value U.S. Treasury Notes valued at $301,554. This includes a premium of $1,554. At June 30, 1994, the Authority owned two U.S. Treasury Notes of $100,000 par value each valued net of discounts at $199,697. At June 30, 1994, $100,000 of the U.S. Treasury Notes were loaned under a security lending agreement with the state's agent. The STIP units and the remaining portion of the notes were held by the state or its agent in the state's name.

4. Pension Plan

The Authority and its one employee contribute to the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan. Established in 1945 and governed by Title 19, Chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals five years. The Authority and its employee were required to contribute 6.55 and 6.70 percent of annual compensation in fiscal years 1992-93 and 1993-94, respectively.

The Authority's covered payroll was $40,722 and $40,927 and PERS contributions were $2,671 and $2,743 in fiscal years 1992-93 and 1993-94, respectively.

Actuarial valuations are performed at PERS every two years. In calculating the pension benefit obligation for fiscal years

1992-93 and 1993-94, respectively, the actuary assumed a return on investments of 8 percent in each year, salary inflation increases of 6.5 and 6.25 percent, and no change in post retirement benefits.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Authority is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total state basis, not agency basis.

The pension benefit obligation at June 30, 1993 and 1994, for PERS as a whole was $1,405,884,112 and $1,475,985,705, respectively. The system's net assets available for benefits at cost on June 30, 1993 and 1994, were $1,107,748,782 and $1,202,063,252 leaving an overall unfunded pension benefit obligation of $298,135,330 and $273,922,453, respectively. The Authority is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the PERS progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1994, annual financial report.

5. Subsequent Events and Related Party

The Authority had two bond issues subsequent to June 30, 1994. On July 26, 1994, the Authority issued $13,100,000 of Series 1994 Health Care Revenue Bonds for the Montana Developmental Center. Net proceeds of $10,500,000 will be used to finance the acquisition, construction, equipping of new facilities and renovation of certain existing facilities for use at the Developmental Center in Boulder, Montana. The remaining

proceeds will also be used to provide for capitalized interest on the bonds, to establish a reserve fund required by the Bond Indenture and to pay costs associated with issuing the bonds.

The Authority also organized another Pooled Loan Program called the Master Loan Program. Under the Master Loan Program the Authority issued Health Care Revenue Bonds, Series A through D, in the amount of $4,575,000 on October 19, 1994. The Authority loaned the proceeds of the bonds to three hospitals and a long-term care facility for the purposes of financing or refinancing the costs of certain capital improvements or equipment of the respective borrowers. The Authority also made a $300,000 loan from its own funds to one of the health facilities as part of this financing arrangement.

The Board of Investments (the Board), pursuant to Title 17, Chapter 6, MCA, and the Authority, pursuant to section 90-7-320, MCA, have entered into capital reserve account agreements for the two bond issues described above. In accordance with the agreements, the board has irrevocably agreed to lend to the Authority funds sufficient to ensure timely payment of the principal and interest of the bonds. The loans, if necessary, will be made by the Board from the Permanent Coal Trust Fund or any other legally available funds administered by the Board. Both the Board and the Authority are administratively attached to the Department of Commerce.

6. Notes Receivable

The Notes Receivable include loans made under the Authority's new Direct Loan Program and a loan agreement of certain planning fees. Since the loans are made from the Authority's funds, a receivable is established. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Agency Response

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE

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November 1, 1994

Mr. Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
Capital Station
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The Montana Health Facility Authority (the "Authority") is pleased with the opinion issued by your office in connection with the Authority's financial statements for the two fiscal years ended June 30, 1994.

As I have previously stated, the positive working relationship which has evolved among your staff, the Department of Commerce and the Authority has greatly contributed to the Authority's financial compliance performance.

Sincerely,

Jerry R. Hoover
Executive Director